

A Message to Our Shareholders



Yosuke Matsuda
President and Representative Director

Thank you for your continued support of the Square Enix Group. With your support, we made the fiscal year ended March 2017 one of record net sales, operating income, recurring income, and net income, successfully fortifying our foundation for further growth. I am pleased to take this opportunity to describe conditions in each of our business segments and our plans for the way forward.

Business Segment Overview

Digital Entertainment Business Segment

In the fiscal year ended March 2017, the Digital Entertainment Business Segment posted net sales of ¥199 billion and operating income of ¥33.3 billion, with both figures representing year-on-year growth. In the HD (High-Definition) Games sub-segment, major titles such as “FINAL FANTASY XV,” “Rise of the Tomb Raider” for PlayStation®4, “Deus Ex: Mankind Divided,” and “NieR:Automata” made major contributions to earnings. We released “FINAL FANTASY XV,” the latest series title in the FINAL FANTASY franchise, simultaneously in all markets on November 29, 2016. Thanks to your support, the title has been a major global hit enjoyed by gamers the world over. Since the game’s launch, we have released DLC (downloadable content) and updates to ensure its many fans can continue to play it over the long term. In the case of “Rise of the Tomb Raider,” we first released versions for Xbox One and Xbox 360 followed by Windows in the fiscal year ended March 2016, before making it available for PlayStation®4 in the fiscal year ended March 2017. The global response to the title has been excellent, putting it on par with “Deus Ex: Mankind Divided” as a symbol of the high quality of our Group’s products. In addition, “NieR:Automata,” which we released in February 2017, has proven a global hit far in excess of our expectations. It has not only reminded the world of the high quality of Japanese games, but also demonstrated significant potential for future franchise development.



FINAL FANTASY XV
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MAIN CHARACTER DESIGN:
TETSUYA NOMURA



Rise of the Tomb Raider
Tomb Raider ©2016 Square Enix Ltd. Published
by Square Enix Co., Ltd.



Deus Ex: Mankind Divided
Deus Ex: Mankind Divided © 2017 Square Enix Ltd.
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A Message to Our Shareholders

In the MMO (Massively Multiplayer Online game) sub-segment, we strove to maintain stable operations for our “FINAL FANTASY XIV” and “DRAGON QUEST X” titles. In the case of “FINAL FANTASY XIV,” we not only worked on operational stability but also announced in December 2016 a release date for the “Stormblood” expansion pack, thus bolstering the number of our paid subscribers. Moreover, when we launched that expansion pack in June 2017, we achieved the greatest paid subscriber count we had seen since the launch of “A Realm Reborn” in August 2013. With an expansion pack release slated for “DRAGON QUEST X” during the fiscal year ending March 2018, we see the MMO business as a major contributor to the stability of our earnings.



FINAL FANTASY XIV

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DRAGON QUEST X

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Our Games for Smart Devices/PC Browsers sub-segment struggled in the first half of the fiscal year ended March 2017, but we were able to make up lost ground in the second half by releasing successful titles, primarily leveraging our own IP (intellectual property). While we often hear that the Japanese mobile game market has reached maturity, we do not believe that “maturity” is synonymous with “stagnation” or “decline.” “Maturity” only means that mobile devices in general and smartphones in particular have already established solid positions as gaming devices and that gamers playing games on their smartphones have become a common sight. In addition, with a multitude of titles on offer, including both new and classic titles, gamers are becoming more discerning in their choices. Competition over their playtime has intensified, and the race to grab a spot on their smartphone screens is growing ever more heated. This means that only fun, appealing games will survive, which is of course only natural. As such, the market is at last in a stage where the capabilities of the game companies will truly be tested. That is what we understand “maturity” to mean. Based in part on the lessons we learned in the fiscal year ended March 2017, we intend to leverage our strengths to deliver even more sophisticated games in the fiscal year ending March 2018, so that we can target Smart Devices/PC Browsers sub-segment sales in excess of ¥100 billion.



Amusement Business Segment

In the fiscal year ended March 2017, the Amusement Business Segment saw stable earnings, with net sales coming in at ¥42.7 billion and operating income at ¥3.6 billion. We released new arcade titles such as “GUNSLINGER STRATOS 3” and “LOVE LIVE! School Idol Festival – after school ACTIVITY –” receiving a positive response from our customers. In addition, September 2016 saw the opening of Taito Station Ikebukuro Nishiguchi, a large arcade in the busy Ikebukuro area of Tokyo featuring a jumbo screen on the exterior. Along with the “STORIA” cafe that we opened at the same time, the location has proven popular with customers as a new source of gaming experiences. In the fiscal year ending March 2018, we plan to establish a new arcade format in Hakata, the largest town in Kyushu, in collaboration with teamLab Inc., where we hope our customers will come to experience the latest evolution in arcades.



GUNSLINGER STRATOS 3
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LOVE LIVE! School idol festival – after school ACTIVITY –
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“LOVE LIVE! School idol festival – after school ACTIVITY –” is joint development project with Bushiroad Inc.



Publication Business Segment

Despite the publishing industry struggling, our Publication Business Segment was able to achieve sales and profit growth in the fiscal year ended March 2017, posting sales of ¥10 billion and operating income of ¥2.4 billion. This was in spite of some of our major titles ending and there being a lull in our anime adaptations. Moreover, we have at last begun to see growth in digital sales, which has been an area of focus for several years. Digital sales now account for more than 15% of the total for the Publication Business Segment. It is clear that our customers are moving away from print media and that the shift to e-books and digital media is an irreversible trend. Publishers have no choice but to respond to changing customer reading styles, and no time can be wasted in transitioning to a structure that leverages the unique attributes of the digital media business, including the elimination of inventory and the challenge of product returns. In the fiscal year ended March 2017, we not only offered traditional e-books, but also released a new app called “Manga UP!” in order to offer customers additional convenience and inspire them to make new purchases. We have also released many titles with future potential such as “The Case Study of Vanitas,” “Yakumo-san wa Eduke ga Shitai,” and “Happy Sugar Life.” As I always say, our Publication Business Segment is a fertile field from which we can cultivate new content. Japanese manga and anime represent powerful pieces of IP that enjoy strong reputations around the world. It is our Publication Business Segment that gives rise to such IP, so how we go about evolving it in a multifaceted way for the digital age will be a key part of our strategy. Rather than thinking that the segment’s boundaries end with traditional comic sales, we intend to define its reaches more broadly in order to pursue further earnings expansion.

Merchandising Business Segment

Both net sales and operating income grew at the Merchandising Business Segment in the fiscal year ended March 2017, coming in at ¥6.4 billion and ¥2.1 billion, respectively. The segment represents a key part of our business portfolio, helping to compliment and bolster our lineup of original products. In the fiscal year ended March 2017,

sales of products and services commemorating the 30th anniversary of “DRAGON QUEST” and “FINAL FANTASY XV” tie-in products were especially brisk, enabling us to significantly grow our earnings. The “SQUARE ENIX CAFE” that we opened in the Akihabara entertainment district of Tokyo in October 2016 has generated traffic far beyond our expectations and inspired many customers to purchase merchandise associated with their favorite game titles. Our hope is that the cafe will not only generate product sales in its role as our official shop, but also serve as an important source of information regarding our products and services. We will continue to enhance its product and service offerings in order to attract even more customers.

Key Business Development Initiatives

The environment surrounding the gaming industry is in constant motion. I would therefore like to describe the business development initiatives we are undertaking to drive sustained growth against such backdrop.

Digital Sales Enhancement

The way game content is purchased is undergoing a significant change. Gamers are significantly moving away from purchasing packaged games and shifting toward digital downloads. In North America, more than 20% of purchases of “FINAL FANTASY XV” have been via digital downloads. The global download rate for “NieR:Automata” has been even higher at over 30%. Higher download rates help in a significant way to improve profitability on HD game sales. Mega publishers in the West have greatly improved their profitability via strong promotions of digital downloads. However, our own efforts in this area have not been sufficient, and we still have significant scope to improve our margins by bolstering our digital sales rates. It is extremely important to make the purchasing process as smooth as possible, such as by presenting or recommending products to customers based upon their purchase attributes. As such, we intend to undertake a variety of initiatives, including the overhaul of our sales sites.

Multiplatform Utilization

It is in the interest of content providers such as ourselves to have more platforms on which to provide our content. In the console gaming space, the fiscal year ended March 2017 saw the release of the “Nintendo Switch”, and its installed base has been growing rapidly. Microsoft has also announced that it will be releasing the “Xbox One X” this fall, so the console gaming market looks likely to experience an upsurge as we head into the 2017 holiday season. With 5G or the fifth-generation mobile networks likely to come online at last as 2020 approaches, the telecommunications environment for mobile gaming also looks poised to evolve dramatically.

Devices supporting VR (virtual reality) and AR (augmented reality) technologies are also likely to grow smaller and lighter, and the use of such technologies in mobile environments looks likely to increase. As such, we believe we

will see new content and services developed in those spaces.

In the mobile content space, native apps are enjoying a zenith, but in the 5G world that awaits us, we believe that HTML5 will result in a resurgence for web browsers and that robust cloud streaming will become a reality. By collaborating with and taking part in Yahoo Japan's "Yahoo!Game Gameplus" initiative, we intend to proactively engage with browsers, the conventional platform that has many new things to offer.

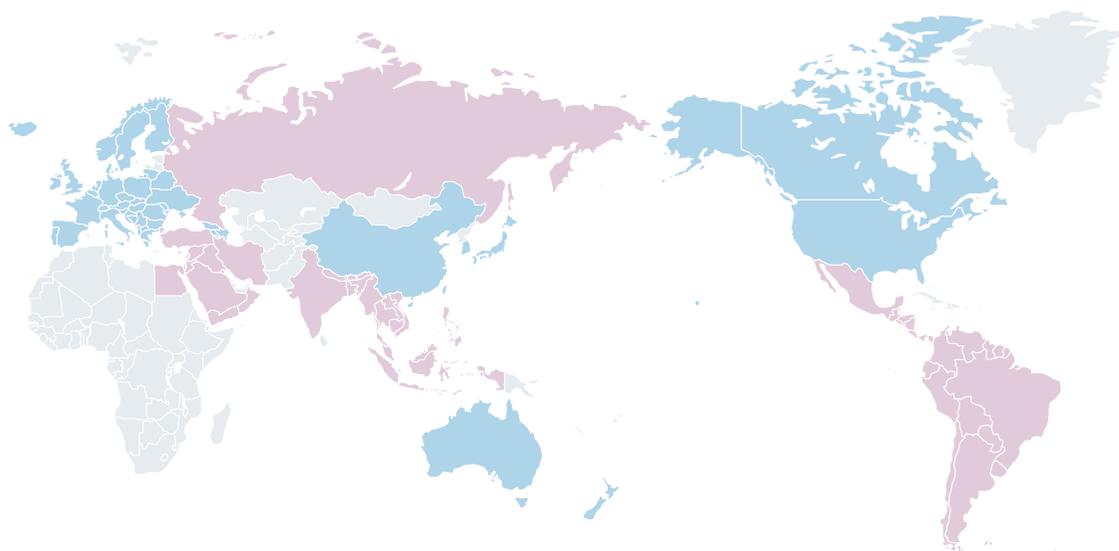
As the above illustrates, game platforms are constantly evolving, with content now regularly becoming available on platforms where it previously could not be offered. This should be welcomed by content providers such as ourselves who possess a wealth of content assets. We have entered an age where more customers can enjoy our content more easily. For this reason, our guiding principle will be to offer our content on all available platforms to make it possible for our customers to enjoy our content in the ways that best suit their diverse lifestyles.

Geographic Expansion

It goes without saying that expanding the geographies in which we offer our products and services is a key challenge. We saw the numbers that "FINAL FANTASY BRAVE EXVIUS" and "KINGDOM HEARTS Union X" were able to generate in the North American market in the fiscal year ended March 2017 as a major achievement. Japan, North America, and China account for more than 70% of the global mobile gaming market. How we go about enhancing our presence in those three major markets is a key question. In particular, we have not been able to attain the achievements we

Overseas Expansion of the Digital Entertainment Segment

- Target markets
- Existing markets





should have been able to thus far in the North American market. However, the success of the aforementioned titles in the fiscal year ended March 2017 gives us hope for future releases. We have multiple title launches scheduled for the fiscal year ending March 2018 and intend to solidify our foothold in the North American market.

It should also be noted that we exhibited at the India Gaming Show 2017 in February 2017. India has significant potential as a gaming market given the country's striking economic growth and massive youth population. We had previously seen India as one location in our global development network and contracted game asset development and other tasks to local firms there. However, we believe we have now reached the point where we should view India as a consumer market. Our hope is that as telecommunications infrastructure and payment systems rapidly come online, India will take off as a major consumer market for games. Based on that belief, we will continue to expand in India.

Games as a Service, Games as Media

"Games as a Service" is a concept that is often mentioned recently in HD game contexts. Gone are the days in which single-player games were of primary status and multiplayer games secondary. Lately, multiplayer games have taken the lead, and it is standard for games to be designed for long-term play. The terms "multiplayer" and "Games as a Service" themselves have existed for some time, but they are now being used in reference to game designs that place a strong emphasis on longer-term user engagement. We will also endeavor to develop games designed not to be played once after launch but that customers can enjoy more and play longer. In so doing, we will increase customer satisfaction and enhance the lifetime value of the games themselves.

Game play streaming has been another major trend in recent years. An increasing number of our customers around the world enjoy not only playing games themselves, but also watching other gamers play them. You do not actually need to play a game yourself to enjoy it. Watching the advanced techniques of professional gamers and the



unique broadcasts of game streamers is another way to enjoy games. Watching gaming is growing into a major form of entertainment thanks to considerable advances in the online streaming environment. It is the presence of e-sports spectators that make this meaningful. Once the size of gaming spectatorship grows, gaming itself will gain value as a form of media. This conversion of gaming into a form of media is proceeding rapidly. We also have a great deal of interest in this field and intend to proactively work to turn it into an actual business.

In Closing

In the fiscal year ended March 2017, we set new records for net sales and all our profit lines. However, that achievement is already in the past, and it was merely a mile marker on our way to future growth. The business environment that surrounds us is subject to constant, unending change. We view such changes as opportunities and intend to continue to strive for further growth.

We look forward to your continued support.

Yosuke Matsuda
President and Representative Director